



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
FORMER LEWIS COUNTY
SHERIFF'S SETTLEMENT - 1997 TAXES**

September 30, 1998

**EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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Edward B. Hatchett, Jr.
Auditor of Public Accounts

To the People of Kentucky
Honorable Paul E. Patton, Governor
John P. McCarty, Secretary
Finance and Administration Cabinet
Sarah Jane Schaaf, Secretary, Revenue Cabinet
Honorable George Plummer, County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
Honorable Virgil Cole, Former Lewis County Sheriff
Members of the Lewis County Fiscal Court

Independent Auditor's Report

We have audited the former Lewis County Sheriff's Settlement - 1997 Taxes as of September 30, 1998. This tax settlement is the responsibility of the former Lewis County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The former Sheriff prepared his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Lewis County Sheriff's taxes charged, credited, and paid as of September 30, 1998, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky
Honorable Paul E. Patton, Governor
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Members of the Lewis County Fiscal Court

Based on the results of our audit, we have presented the following Comment and Recommendation, included herein, which discusses the following area of noncompliance.

- The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

In accordance with Government Auditing Standards, we have also issued a report dated August 12, 1999, on our consideration of the former Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 12, 1999

LEWIS COUNTY
VIRGIL COLE, FORMER SHERIFF
SHERIFF'S SETTLEMENT - 1997 TAXES

September 30, 1998

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 204,131	\$ 141,575	\$ 564,652	\$ 258,642
Tangible Personal Property	9,644	7,188	25,374	29,772
Intangible Personal Property				4,468
Fire Protection	5,210			
Franchise Corporation	133,105	97,354	284,957	
Supplemental Billings	2,033			8,256
Fire Districts		53,688		
Penalties	2,291	2,297	6,255	2,944
Adjusted to Sheriff's Receipt	(2)	(2)	8	7
Gross Chargeable to Sheriff	\$ 356,412	\$ 302,100	\$ 881,246	\$ 304,089
<u>Credits</u>				
Discounts	\$ 2,370	\$ 2,201	\$ 6,388	\$ 3,205
Exonerations	2,791	2,644	7,645	3,169
Delinquents:				
Real Estate	8,417	8,241	22,936	10,499
Tangible Personal Property	6	5	16	20
Intangible Personal Property				284
Uncollected Franchise	4,524	4,837	11,886	
Total Credits	\$ 18,108	\$ 17,928	\$ 48,871	\$ 17,177
Net Tax Yield	\$ 338,304	\$ 284,172	\$ 832,375	\$ 286,912
Less: Commissions *	14,665	9,847	33,295	12,481
Net Taxes Due	\$ 323,639	\$ 274,325	\$ 799,080	\$ 274,431
Taxes Paid	323,310	274,382	799,045	274,426
Due Districts or (Refunds) Due Sherif		**		
as of Completion of Fieldwork	\$ 329	\$ (57)	\$ 35	\$ 5

* and ** See Page 4

LEWIS COUNTY

VIRGIL COLE, FORMER SHERIFF
 SHERIFF'S SETTLEMENT - 1997 TAXES
 September 30, 1998
 (Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	830,765
4% on	\$	832,375
1% on	\$	68,623

** Special Taxing Districts:

Extension District	\$	(5)
Fire District - Black Oak		(18)
Fire District - Firebrick		(34)
		<hr/>

(Refunds Due Sheriff)	\$	<u>(57)</u>
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The accompanying notes are an integral part of the financial statement.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT

September 30, 1998

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to law, the depository institution should pledge sufficient securities as collateral which, together with FDIC insurance, equals or exceeds the amount on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge of securities should be evidenced by an agreement that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. The depository institution did make such a pledge, and the depository institution's board of directors or loan committee approved the pledge. However, the depository institution did not have a written agreement with the former Sheriff.

LEWIS COUNTY
NOTES TO FINANCIAL STATEMENT
September 30, 1998
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1997. Property taxes were billed to finance governmental services for the year ended June 30, 1998. Liens are effective when the tax bills become delinquent. The collection period for these assessments was October 13, 1997 through June 24, 1998.

Note 4. Interest Income

The former Lewis County Sheriff earned \$3,068 as interest income on 1997 taxes. The former Sheriff distributed \$1,044 to the school district with a balance still due of \$364. The remainder was used to operate the former Sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The former Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1997 taxes, the Sheriff had \$1,297 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department. This interest-bearing account should then be turned over to the current Sheriff to maintain.

COMMENT AND RECOMMENDATION

LEWIS COUNTY
VIRGIL COLE, FORMER SHERIFF
COMMENT AND RECOMMENDATION

September 30, 1998

STATE LAWS AND REGULATIONS:

The Former Sheriff Should Have Had A Written Agreement To Protect Deposits

The former Sheriff maintained deposits with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). The former Sheriff had a bank balance of \$705,587; FDIC insurance of \$200,000; and securities pledged of \$980,000 as of November 7, 1997. Even though the former Sheriff obtained pledged securities of \$980,000, the pledge was not evidenced by a written agreement. We recommend the Sheriff enter into a written agreement with the depository institution. This agreement, signed by both parties, must be sufficient to create an enforceable and perfected security interest in the collateral under Kentucky law. According to federal law, 12 U.S.C.A. § 1823(e), this agreement should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Management's Response:

We did not have one.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Honorable George Plummer, County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
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Members of the Lewis County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Lewis County Sheriff's Settlement - 1997 Taxes as of September 30, 1998, and have issued our report thereon dated August 12, 1999. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the former Lewis County Sheriff's Settlement - 1997 Taxes as of September 30, 1998 is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Lewis County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable George Plummer, County Judge/Executive
Honorable William D. Lewis, Lewis County Sheriff
Honorable Virgil Cole, Former Lewis County Sheriff
Members of the Lewis County Fiscal Court
Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

This report is intended for the information of management. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a long horizontal flourish extending to the right.

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
August 12, 1999

